

<b>DEPARTMENTAL REGULATION</b>		Number: 1720-001
SUBJECT: Audit Followup, Management Decisions and Final Actions	DATE: March 8, 1990	
	OPI: Office of Finance and Management	

1 PURPOSE

This regulation sets forth the Department's policies, procedures, and responsibilities for rendering management decisions and taking final actions on recommendations resulting from the Office of Inspector General (OIG) audit reports.

2 SPECIAL INSTRUCTIONS/CANCELLATIONS

Agency and staff heads are responsible for informing their employees of the provisions of this regulation.

Departmental Regulation 1720-1, "Audit Followup, Resolution, and Closure and Establishment and Collection of Claims Arising from Audits," dated May 17, 1983, is superseded by this regulation and is hereby rescinded.

3 APPLICABILITY

This regulation applies to audits conducted by, for, or under the direction of the OIG.

4 POLICY

Managers will: (1) promptly evaluate findings and recommendations reported by auditors, (2) determine proper actions in response to audit findings and recommendations, and (3) complete, within established timeframes, all actions that correct or otherwise respond to the matters brought to management's attention. When a potential problem or significant weakness is reported to the agency prior to report issuance, managers will take prompt action when sufficient information is provided.

Departmental agencies will take all necessary actions to fully comply with the requirements for a management decision on recommendations resulting from audit reports and on final actions, including the establishment and disposition of claims.

Management decisions include a determination or a plan for those actions deemed necessary to be taken on each recommendation, proposed dates for implementation, and agreement on the monetary amounts. For any monetary amounts that are owed to the Government, an accounts receivable must be established at the time the management decision is made.

The procedures to be performed within the Department for management decisions and final actions are provided in Appendix A.

## 5 REFERENCES

The following acts, regulations, and directives define authorities and responsibilities, and establish procedures, timeframes and other requirements for management decisions and final actions on audit recommendations:

- a Pub. L. No. 96-304, "Supplemental Appropriations and Rescission Act of 1980" (Section 305).
- b 31 U.S.C. 3711 et seq., "Federal Claims Collection Act of 1966."
- c 4 CFR 101 through 105, "Federal Claims Collection Standards."
- d OMB Circular A-73, "Audit of Federal Operations and Programs."
- e OMB Circular A-50, "Audit Followup."
- f GAO Manual for Guidance of Federal Agencies, Title 2 Accounting, Chapter 3 - Internal Control Standards.
- g OMB Circular A-129, "Managing Federal Credit Programs."
- h 5 U.S.C. App. "Inspector General Act of 1978, as amended," (Pub. L. No. 95-452, as amended).
- i Departmental Regulation 1700-1, "Basic OIG Investigation/Audit Organization and Procedures."
- j Treasury Financial Manual (TFM) 6-8000.
- k 31 U.S.C. 1105, 1113, 3512, "Federal Managers' Financial Integrity Act of 1982" (Pub. L. No. 97-255).
- l 31 U.S.C. 7501 et seq., P.L. 98-502, "Single Audit Act of 1984" (Pub. L. No. 98-305).
- m 7 CFR 3020, "Audits."
- n Departmental Regulation 2130-1, "Requirements for the Establishment and Management of Accounts Receivable Arising from Audits."

o National Finance Center, Title III, Billings and collections Manual, Bulletin Number 87-1, "Utilization of the Administrative Billings and Collections (ABCO) System."

## 6 DEFINITIONS

Section 106 of Pub. L. No. 100-504 amended section 5 of the Inspector General Act of 1978 to define the following terms:

a Questioned Cost

- (1) A cost that is questioned by OIG because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document (including loan documents) governing the expenditure of funds;
- (2) A finding that, at the time of the audit, such cost is not supported by adequate documentation; or
- (3) A finding that the expenditure of funds for the intended purposes is unnecessary or unreasonable.

b Unsupported Cost. A cost that is questioned by OIG because it found that, at the time of the audit, such cost is not supported by adequate documentation.

c Disallowed Cost. A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.

d Recommendation that Funds Be Put to Better Use. A recommendation by OIG that funds could be used more efficiently if management took actions to implement and complete the recommendation, including:

- (1) Reductions in outlays;
- (2) Deobligation of funds from programs or operations;
- (3) Withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds;
- (4) Cost not incurred by implementing recommended improvements related to the operations of the establishment, a contractor, or grantee;
- (5) Avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or
- (6) Any other savings which are specifically identified.

e Management Decision. An evaluation by management of the findings and recommendations included in an audit report and the issuance of a final decision

concerning its response to such findings and recommendations, including actions concluded to be necessary.

f Final Action

(1) The completion of all actions that management has concluded, in its management decision, are necessary with respect to the findings and recommendations included in an audit report; and

(2) In the event that management concludes no action is necessary, final action occurs when a management decision has been made.

7 REPORTING REQUIREMENTS

The OIG and the Office of Finance and Management (OFM) will, not later than April 30 and October 31 of each year, prepare semiannual reports for submission by the Secretary to the Congress summarizing the activities during the immediate preceding 6 month periods -- March 31 and September 30. OIG's report will include statistical and narrative information and monetary benefits on management decisions resulting from audits. OFM's report will include statistical and narrative information and monetary benefits of final actions taken by management on audit findings and recommendations.

8 RESPONSIBILITIES

a Departmental Audit Followup Official. The Department's Audit Followup Official, the Deputy Secretary, will:

(1) Render management decisions on recommendations, resulting from audit reports where there is disagreement between OIG and the agency.

(2) Ensure the initiation and completion of final actions resulting from management decisions rendered.

(3) Oversee the activities and enforcement of the policies and requirements set forth in this regulation.

b Under and Assistant Secretaries will review and will attempt to resolve disagreements on management decisions prior to elevation to the Deputy Secretary.

c Agency Heads will:

(1) Be personally responsible for assuring management decisions are rendered and final actions are taken in accordance with the management decisions.

- (2) Assure management decisions and final actions are consistent with laws and regulations.
- (3) Delegate management decision and final action authority within the agency, as appropriate.
- (4) Establish a system to monitor and track audit recommendations to ensure management decisions are rendered within the legislatively mandated 6-month period after report issuance and final actions are taken within 1 year of the management decision. This system will also monitor and track final actions resulting from management decisions. As a minimum, the system should provide:
  - (a) Accurate and complete documentation of management decisions rendered on audit recommendations; the status and progress related thereto; and status on final actions. The records should be retained for a period of 3 years after the effective date of the last final action.
  - (b) An audit trail of management decisions and final actions for each audit for use by OIG.
- (5) Designate officials responsible for the system, and include this responsibility in their performance elements and standards.
- (6) Ensure the timeliness and quality of management decisions and final actions are a factor in determining bonuses for Senior Executive Service members and merit pay for supervisors.

d Agency Audit Liaison Officials will:

- (1) Ensure that written management decisions are made on audit recommendations and provide the information to OIG.
- (2) Work with OIG to achieve agreement on management decisions.
- (3) Ensure that management decisions are timely and that final actions fully comply with the management decisions, which includes compliance with timeframes and agreement on monetary amounts.
- (4) Coordinate with OFM from the date of the management decision through completion of the final actions.
- (5) Provide OFM with documentation on final actions.
- (6) Notify OFM within 15 days when completed final actions do not comply with management decisions.
- (7) Establish appropriate accounting and collection controls over amounts determined to be due to the Government.

(8) Periodically analyze audit recommendations, management decisions, and final actions to determine trends and system-wide problems, and to recommend solutions.

(9) Provide for a periodic evaluation of the management decision and final action process to determine if the results are effective, efficient, prompt, and proper.

e OFM will:

(1) Assist agencies in the establishment and management of accounts receivable and the identification of claims resulting from management decisions and final actions on audit recommendations, in accordance with DR 2130-1 and NFC Bulletin Number 87-1.

(2) Monitor and track final actions to ensure timely and accurate initiation and completion in accordance with the management decisions.

(3) Determine when all final actions have been properly and fully completed and notify the agency concerned of that determination. When the final actions do not agree with the management decision, notify OIG.

(4) Prepare semiannual reports, for submission by the Secretary to the Congress, of statistical and narrative information and monetary benefits of final actions.

(5) Include audit followup responsibilities in the performance elements and standards of appropriate personnel, and make them a factor in determining bonuses for Senior Executive Service members and merit pay for supervisors.

f OIG will:

(1) Conduct audits and issue audit reports presenting findings, conclusions and recommendations.

(2) Monitor and track audit recommendations until all management decisions are rendered.

(3) Monitor agency adherence to audit report responses and take prompt followup action when replies are not received.

(4) Promptly evaluate and determine the adequacy and appropriateness of management decisions and notify the agency in writing accordingly.

(5) Coordinate closely with Departmental agencies during the management decision process. Request assistance of the Office of the General Counsel (OGC) and the Comptroller General in resolving matters.

- (6) Elevate the matter to the Department's Audit Followup Official when a management decision has not been rendered within 150 days from audit report issuance.
- (7) Prepare statistical and narrative information and monetary benefits on management decisions resulting from audits and provide a semiannual report to the Secretary and Congress.
- (8) Include audit management decision responsibilities in the performance elements and standards of appropriate audit operational personnel, and make them a factor in determining bonuses for Senior Executive Service members and merit pay for supervisors.
- (9) Approve letters to the Comptroller General or the Department of Justice pertaining to OIG audits prior to submission to OGC (DR 3060-1).

g OGC will:

- (1) Provide legal advice and/or assistance promptly to requests for legislative or regulatory interpretations.
- (2) Issue formal legal opinions pertaining to issues concerning management decisions and claims collections, where necessary.
- (3) Advise and concur in all agency claim referrals or requests for assistance to the Comptroller General and/or the Department of Justice. This does not preclude OIG from submitting matters pertaining to OIG audits or investigations to the Comptroller General and/or the Department of Justice.

## APPENDIX A

## AUDIT PROCEDURES FOR MANAGEMENT DECISIONS

## AND FINAL ACTIONS

1       OIG will issue the final audit report to the agency management official/contracting officer and simultaneously provide two copies to OFM, one marked "Audit Liaison Office" and the other marked "Director."

2       OIG will provide information to the agency or agencies involved, with a copy to OFM, confirming recommendations for which management decisions have been made and indicating the recommendations for which a management decision has not been made.

3       Within 60 days of the audit release date, the agency must provide a management decision to OIG for each recommendation in the audit report for which there was no management decision made at the time of report issuance, as indicated in the report transmittal memorandum.

a       The management decision must include:

(1)       A determination by the management official/contracting officer of the specific actions necessary to comply with each recommendation and the validity of any monetary amounts associated with each recommendation.

(2)       A plan for those actions deemed necessary must include:

(a)  
The specific actions to be taken on each recommendation;



(b)

The proposed completion  
dates for implementation;

(c)

Agreement on any  
monetary amounts associated with  
each recommendation;

(d)

Documentation, including  
Letters of Determination, which  
inform the auditee of the audit  
findings (including amounts owed  
to the Government) and the need-  
for and nature of corrective action.

(3) A copy of the bill for  
collection for amounts owed to the Government and  
support that the amounts have been entered as a  
receivable on the agency's accounting records.

(4) An explanation and  
justification regarding any recommendation and/or  
monetary amount not considered valid by the  
management official/contracting officer.

b If corrective final action has already been taken, the  
management decision must describe the action taken and the total  
dollar amount of any disallowed costs as well as the amounts agreed to  
for funds to be put to better use through:

(1) Reduction in outlays;

(2) Deobligation of funds  
from programs or operations;

(3) Withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds;

(4) Costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee;

(5) Avoidance of unnecessary Expenditures noted in preaward reviews of contracts or grant agreements; or

(6) Any other savings which are specifically identified.

OIG will determine whether such corrective actions are responsive to the audit recommendation.

4 The following two scenarios are possible on the management decision:

a OIG accepts the management decision:

(1) The management decision becomes final and OIG provides written confirmation of its acceptance to the agency.

(2) OIG provides a copy of the management decision to the OFM Audit Liaison Office.

b OIG disagrees with the management decision:

(1)       OIG will provide a written explanation of the reasons for disagreement to the agency.

(2)       Discussions and meetings between OIG and agency officials to resolve differences will begin at the lowest appropriate level and escalate to the highest levels until agreement is reached.

(3)       If an agreement with the management decision has not been reached within 90 days of the audit release date, both OIG and the agency will alert their respective senior officials of the differences and potential problems in reaching agreement.

(4)       If agreement has not been reached within 120 days, OIG will prepare an Audit Decision Paper summarizing disagreement with the management decision, and will discuss the Decision Paper with the management official/contracting officer and add the agency's comments before finalizing the Paper. The Audit Decision Paper will set forth both the OIG and the agency management positions, along with any additional documentation that may assist in resolving the disagreement. If necessary, OIG will use the Decision Paper as a basis for discussion with the agency head on matters of disagreement.

(5)       If agreement with the agency head has not been reached within 135 days, the Audit Decision Paper will be elevated by OIG to the applicable Under or Assistant Secretary.

(6)       If, after 150 days, an agreement has not been reached, the Audit Decision Paper will be elevated by OIG to the Department's Audit Followup Official, the Deputy Secretary, who will render a management decision.

(7) The timetable and actions described above do not preclude elevation to the next level at any time.

(8) OIG will provide the agency and the OFM Audit Liaison Office with a copy of the Department's Audit Followup Official's final decision.

5 Until a management decision has been made on each recommendation, OIG will work with the agency(s) on that report. As each management decision is made after report issuance, OIG will send a confirming memorandum to the agency or agencies, with a copy to OFM.

6 As each management decision is made, OFM will handle followup on final action.

7 Agency reports to OFM on final actions must include:

a For each recommendation, a description of the measures taken to comply/implement the specific actions of the management decision.

b For recommendations with monetary amounts, final actions include management's final disposition of a claim through:

(1) Total recovered disallowed costs/loans broken down by:

- (a) Collections
- (b) Offsets
- (c) Property in lieu of cash
- (d) Writeoffs

(e) Other

(2) Agreed-to amount of funds to be put to better use must include:

(a) Total funds put to better use;

(b) Dollar value completed; and/or

(c) Dollar value of actions not taken.

(3) The date the action was taken on monetary amounts.

c For recommendations on which final action has not been taken within 1 year from the date of a management decision, agencies must report the following for each audit.

(1) The dollar value of disallowed costs;

(2) The dollar value of recommendations that funds be put to better use as agreed to by management; and

(3) An explanation of the reasons final action has not been taken with respect to each such audit report.

8 OFM may obtain supporting documentation on management decisions, if required, from the agencies.

9 Agencies must report revised management decisions to the OFM Audit Liaison Office. The OFM Audit Liaison Office will inform OIG of the reasons for any revised

management decision made during the reporting period, including any revised dollar amounts associated with recommendations and any deviations to the corrective action plan.

10 The OFM Audit Liaison Office will advise the agencies of its acceptance of final actions on audit recommendations. Such notification will constitute final disposition of the audit and no further reporting will be necessary.